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ANALYSIS OF MERGER AND ACQUISITION IN NIGERIA

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ABSTRACT

The 2004 banking sector reforms which commenced by the Central Bank of Nigeria for banks to achieve minimum shareholders' funds of ₦25 billion by the end of December 2005 led to the Merger and Acquisition among banks in Nigeria. Merger is a ready-made tool for attracting Foreign Direct Investment (FDI) and having a competitive edge in the race to emerge the most capitalised and formidable bank to reckon with. At the completion of the deadline more than 9000 job losses were recorded among the rank and file of the merged banks. The main objective of the study is to theoretically analyse the merger phase among Nigerian banks. Despite the incontrovertible fact that human and cultural compatibility is the highest cause of conflicts in the consolidation of banks, this is usually ignored for the economic benefit of merger and acquisition like financial and legal issues.

Key words: horizontal merger, foreign direct investment, job loss, organizational restructuring.

INTRODUCTION

Globalisation has generated an intensification of international competitiveness and pressured organisation to change and expand. It has become a worldwide trend in attracting foreign investments and, thus increasing exports and developing international alliances (Ojo and Obaseki 1998; Granell 2000, Aimiwu, 2004; Bennis, 2005). Mergers and Acquisitions (M & A's) are currently, the predominant feature of globalization, since they promote expansion, consolidation and growth. Between the 1980s and the dawn of year 2000, the world has witnessed an increase in Merger and Acquisition's between organisations of different sizes and from different industries. Throughout the past decade, these alliances have dominated the world Economic Scene (Gertsen, Soderberg and Torp, 1998; Buckley and Ghaurri, 2002; and Appelbaum and Gandell, 2003).

Recently, there has been a dramatic merger-led growth in the size of banks around the world, which is traceable to globalisation. Thus, globalisation has brought profound effects on banking industry,

by changing their regulatory frameworks, and thus making the market become more liberal. These extensive changes evident in the banking industry and restructuring that comes in its wake are global phenomenons that are also equally being felt in developing countries as well as economies in transition in all regions.

Merger and Acquisition (M&A) has a very long history; it is said to have begun in the 1900s (Gaughan, 1999). But in Nigeria, it has its root when wide ranging reforms in the financial system were introduced during the last decade, particularly since the inception of the present regime. Between 1994 and 2003, a space of nine years, no fewer than 36 banks in the country closed shops due to insolvency. In 1995, four banks were closed down, Six (6) were liquidated in 1997 for their inability to shore up their capital base to N500 Million (Salman, 2006). But 1998 may go down well in history as the saddest year for the banking industry as 26 banks were shut down that year. Three terminally ill banks also closed down in 2000. In 2002 and 2003 at least a bank collapsed. The failed banks had two things in common—small size and unethical practices. Of the 89 banks that were in existence on June 4, 2004, when the CBN Governor announced the banking reforms, only 25 were able to shore up their capital base to N25 Billion as the deadline expired on December 31, 2005 (Manuaka, 2006). This reform is the aftermath of financial distress noticeable in Nigerian banks, and was aimed at increasing competition and promoting more efficient financial intermediation (Soludo, 2004). Employment in the sector dropped from 78,514 workers in 1990-91 to 54,292 in 1999-2000, though this can be attributed to bankruptcies and closures and not wholly to Merger and Acquisitions (CBN/NDIC Collaborative Study, 2003).

The dynamics of consolidation, ranging from technical to soft issues, needs to be properly articulated and managed in the Pre and Post-merger period. Unfortunately, in most Merger and Acquisitions, attention is usually focused on technical issues relating to finance, regulatory and legal matters. Evidence abound that majority of mergers ends up destroying shareholders' value, due to unintended neglect of issues relating to human resources management, strategic direction, leadership and corporate culture (Prince-Abbi, 2000).

The trend for increased acquisition activity has continued, driven by earnings pressures and the need to improve shareholder value along with the growth pressure and the need to stay competitive. The organisations that can survive this syndrome will be those organisations that can leverage and retain their most talented human

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resources and provide the greatest number of products and services across the widest customer base in an efficient manner.

Despite the fact that human and cultural compatibility is the single largest cause of conflict in the consolidation of business in post merger era, it is usually ignored and downplayed, interest is concentrated almost exclusively on the economic benefits of Merger and Acquisitions, with scant attention being paid to "soft" cultural and organizational considerations. In the current Merger and Acquisition-induced restructuring, and industrial relations climate in the financial services sector, all stakeholders have a stake in determining practices best able to mitigate the impact of downsizing on workers and the future profitability of their enterprises. This main research finding of this study revolves around the cultural implication of merger and its unintended backlash of the workers of these banks.

LITERATURE REVIEW

Mergers and Acquisition are often confused or used interchangeably in the literature, even though significant differences can be identified (Akamiokor, 1989; Sherman 1998; Orojo, 2006). In a merger, two previously separate companies combine their assets to establish a new single organisation. In an acquisition on the other hand, the control of assets is generally transferred from one company to another (Akamiokor, 1989). However, Thach and Nyman (2001) claim that even in a merger, one company typically gains more control and there is commonly a sense of being defeated on the part of the smaller company. The Company and Allied Matter Act (CAMA) 1990, section 590 defines Merger as "an amalgamation of the undertakings or interest in undertakings or any part of the undertaking of one or more companies and one or more bodies corporate". There is another similar term, consolidation, which is the same as a merger, except that an entirely new organisation is created because of organisational combination, while only one organisation survives the other goes out of existence in a merger.

While the disappearance of banking institutions at the end of the 1980s mainly involved bankruptcies or the takeover of distressed firms, contemporary Merger and Acquisitions mostly relate to healthy companies and have two primary motives: *the need to cut costs*, requiring job reductions, especially through substantial pruning of branch networks; and *diversification strategies to ensure revenue growth*. (Akamiokhor 1989; Orojo 2003). A merger will usually take one or two forms. According to Orojo (2003), a merger may take the form of an amalgamation of two or more companies into one whereby

one or more companies is/are merged into another one, formed for the purpose. In the latter case, a new company is formed whereby the existing companies are joined under the new company.

Orojo (2003) classified mergers and take over into three main categories viz: Vertical, Horizontal and Conglomerate. Akamiokhor (1989) highlighted three different types, while Gerten et al; (1998) describe four different types of Merger and Acquisitions that can occur by adding concentric:

Vertical Merger is the type of Merger that occurs between companies at different production stages in the same industries. In a Vertical Merger, a firm purchases one of its suppliers (A backward vertical) or merges with one of its customers (A forward merger) (Walter, 1985, Nord, 1994). **Horizontal Merger** is kind of merger or integration exists between companies in the same branch and at the same production stage. In Horizontal Mergers, one corporation acquires another corporation whose product or services is closely related or of the same type (Nahavandi and Malekzadeh, 1993, Shrivasta, 1986). An example is the takeover of a bank by another, which is taking place at present in Nigeria in the banking sector or the acquisition that took place in the Oil and Gas sector e.g. Total and Elf. **Concentric Mergers** is the merger between companies in different but related branches, or a merger that occurs between two firms with highly similar production or production technologies (Walter, 1985). A Merger between motorcycles manufacturer and an automobile manufacturer would be an example (Nahavandi and Malekzadeh, 1993) both are kinds of corporations with transportation service needs, but they are unique structurally. **Conglomerate Merger** is a situation where a merger takes place between non-related companies; it involves the acquisition of an unrelated business. Conglomerates Merger and Acquisition is a type of merger in which the business is totally unrelated to each other and may require minimum integration (Akamiokhor 1989). The acquired firm is usually one of many under the corporate umbrella of the acquiring firm and is perceived as providing profit diversification. Since the two firms are unrelated in product or service, internal change to the acquired firm, which will remain relatively autonomous, are likely to be minimal, and there will be few cultural clashes between the firms (Walter, 1985)

Central to the growth, viability and survival of any organisation, be it private or public, manufacturing or non-manufacturing, is the effective acquisition, utilization and maintenance of the organisations' Human Resources. The Human Resources is so critical to organisational survival such that it has, judging by today's

complex business environment, being acclaimed as the most important resources available to any organisation (Olusola-Obasa 2005). No matter how efficient and sophisticated your machines, tool, information technology, physical structures and equipment are, and no matter how vast your financial and material resources, even surpassing the N25B recapitalization drive, somebody who is the human element will have to put them to use. It is a truism that an adequate supply of physical and financial resources does not ensure the economic diet of any organisation or bank. Rather, it is entrepreneurship spirit and executive initiative which can utilize these resources profitably for the organisation (Megginson, 1977). According to Wilson (1966), "the human being is the center and yardstick of everything. If you dig very deep into any problem, you would get "people" (Wilson, 1966).

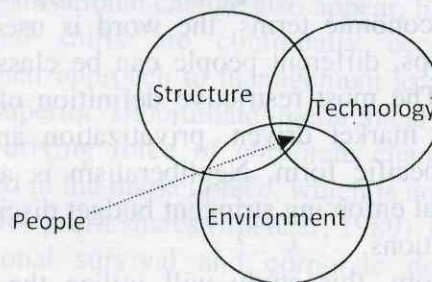


Figure 1: Banjoko (1996)

People are often a reflection of the core, or underlying, values of a company. Looking at people is usually a good place to begin because a clash of values and practices is guaranteed to cause friction as companies-and all the people within those organisations-merges, the following are industrial practices (and underlying reasons for them) that directly have an impact on employees: Compensation packages, Reward and recognition programs, management styles, health and welfare plans, work environments, career and work life paths. Organisations are social systems and they are made up of structures, technology and the environment. The common denominator among the three is people. The Human element is involved in the designing, building and the operation or structure. People are involved in the diet and use of appropriate technology for achieving corporate goal (Banjoko, 1996; Olusola-Obada, 2005).

This study will employ three theories namely; Neoliberal, Social Action and Organisational change theories in analyzing Merger and Acquisition. The main reason for choosing these theories is the

belief that no single theory can singularly and generally capture and explain the reactions that follows the introduction of Mergers and Acquisition in Nigeria's banking industry and the responses of the various stakeholders (Organisation, management, employees, client, etc.).

Neoliberalism is a contemporary socio-economic ideology that attempts to modify the tenets of classical liberalism. Neoliberalism prescribes the rule by market forces, absence of restriction on trade, free enterprise, opening up to international trade and foreign direct investment, absence of price control, total deregulation, and reduction of government regulation on economic policy, privatization and commercialization, elimination of the concept of public good and services and replacing it with individual responsibility.

Many liberal theorists believe that the economy is self-regulatory, if left alone to operate according to its own rules. As with many socio-economic terms, the word is used in different ways by different groups, different people can be classified in different ways based on it. The most restrictive definition of neoliberal is "laissez-faire" capital market driven, privatization and trade arrangement". Under this specific form, Neoliberalism is a business-conservative policy aimed at enforcing stringent budget discipline on developed and developing nations.

Therefore, this study will utilize the theoretical leaning of Neoliberalism as the analytical basis for explaining the issue of merger in Nigeria banking institution, which is being used as a tool for socio-economic growth of the Nigeria society. Since merger became an option and policy of the federal government for attracting foreign direct investment and speeding up the country's desire for development, the theory that best explains the issue at stake is Neoliberalism that advocates individualism, free enterprise, sovereignty of the market, efficiency and economic growth through Foreign Direct Investment (FDI) privatization, deregulation and less government intervention.

Axelrod, (1992) observed that typically, the concept of organizational change is about organization-wide change, as opposed to smaller changes such as adding a new person, modifying a program, etc. Examples of organization-wide change might include a change in mission, restructuring operations (e.g., restructuring to self-managed teams, layoffs, etc.), new technologies, mergers, major collaborations, "rightsizing", as it has happened in most of Nigerian Merged Banks which has seen many of its employees losing its job in the wake of the adoption of merger and acquisition. Often this term designates a

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fundamental and radical reorientation in the way the organization operates (Lewin, 1951).

Change is the shift in the behaviour of any entity, be it organic or mechanistic. It is shifts from one position to another in response either to some internal or external stimuli or for no apparent reason at all. Apart from the external operating environment of a company, changes do occur in its internal environment as well (Beckhard and Harris, 1987). The changes that occur to most Banks in Nigeria was externally induced, because, it was as a result of CBN directive to banks to either shore up their shareholder's fund to N25 Billion or have their operating licensed revoked by the apex Bank. This directive caused most of the banks to merge, sometimes to an incompatible partner or for some to be acquired by a bigger Bank, which eventually led to some internal restructuring and rearrangement. Leadership styles which is synonymous to organisational change also appear, like the use of technology (ATM) and shifts are continually occurring in managerial ages and thus their approach to management as well as in the configuration of the superior subordinate hierarchical chain of command. But the major driving force of corporate change is the competition that has emerged in the market place, which is not only for opportunity share but more for profit shares (Spencer, 1989). Change is a necessity for organizational survival and corporate dominance. Change is also a learning process not only for the individuals and stakeholder within the merged banks but for the banks itself.

Action is human behaviour to which the acting individual attaches subjective meaning. It can be overt or inward and subjective. Action is social when, by virtue of the subjective meaning attached to it by the acting individual(s), it takes account of the behaviour of others and is thereby guided. Not all action is social: if it is not oriented to the behaviour of others, it is not social. Also, it is not merely action participated in by a bunch of people (crowd action) or action influenced by or imitative of others. Action can be causally determined by the behavior of others, while still not necessary being meaningfully determined by the action of others.

We are interested, though, in the subjective meaning of actions that employees of merged or acquired banks exhibited. A defining quality of action is that, unlike behaviour, it carries a subjective meaning of the actor (Weber, 1982). The researcher seeks to understand the subjective meaning that individuals (members of the organisation) give to all their actions and the actions of the group, especially after the resultant job loss and the survivor syndrome that sets in, which led to decrease in productivity and the amount of quality

time they are willing to part with in seeing to the success of their various bank.

ANALYSIS OF MERGER AND ACQUISITION

The recent banking sector reforms commenced with the announcement of a 13-point agenda by the Central Bank of Nigeria on July 6, 2004. A major element of the reform programme was the requirement for banks to achieve minimum shareholders' funds of ₦25 billion by end of December 2005. Banks were specifically required to achieve this through fresh capital injection, where applicable, but were most importantly encouraged to explore Merger/Acquisition arrangement with other banks.

At the expiration of the deadline, twenty five (25) banks emerged from seventy five (75) out of the eighty nine (89) banks that had existed as at December 2004, and more than 9000 job loss trailed the reform programme, Alliance Bank Group comprising 8 merged banks (Fortune, Metropolitan, City Express, Eagle, Triumph, Liberty, Gulf and Afex Banks) led to 5000 job loss. In addition, the withdrawal of licenses of some banks led to massive job losses. For instance, the licenses of Assurance Bank with 700 workers, Lead Bank with 90 staff, All States Trust Bank with 700 staff, Hallmark and Trade Banks with 2000 staff were withdrawn (Fanimo, and Ugwu, 2006).

This Merger and Acquisition-driven consolidation is raising important public policy concerns, notably with respect to employment. Indeed, the announcement of a merger is usually accompanied by an announcement of cost-cutting redundancies in the merging organizations, often on a massive scale. To gain full merger benefits, two overlapping organizations are compressed into one, trimming duplicated operations, which entails redundancies at all levels. The merging of Standard Trust Bank (STB) and United Bank of Africa (UBA) brought about 602 job losses with the bulk of the sacked staff coming from the weaker bank in the merger (Manuaka, 2006). In addition, the merging of Access, Capital and Manny Banks produced about 300 job losses (Fanimo and Ugwu, 2006) Afribank Plc sacked 425 of its employees (Akanbi, 2006a) while Spring Bank sacked 30 (Akanbi, 2006b). Payroll reductions often accounted for over 50 per cent of the total cost reduction and in at least one case the reduction in staff costs accounted for nearly two-thirds of the total. Employment reductions have particularly affected branch networks and administrative functions (Fanimo, and Ugwu, 2006).

Since mergers are primarily cost-cutting exercises, involving job cuts and branch closures, the impact on consumers is most likely

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CONCLUSION

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be a lowering in the quantity and quality of services, individuals are affected by branch closures in rural regions and low-income urban neighbourhoods and have to bear the brunt of a generalized decline in quality resulting from reduced effort in certain product lines or service modes (e.g. teller service, cheque-cashing, transaction and other basic services) (Fanimu and Ugwu, 2006).

CONCLUSION

Generally, the reaction of employees to change can to some extent be described as a process which will decrease as the proper understanding of the situation is gained. It is the initial personal concerns on how merger will affect their career that usually cause employee resistance to change. It is this uncertainty about future events and occurrences or fear of the unknown and the duplicity of candidates for the same job schedule that follow a merger are some of the initial withdrawal on the part of employees.

Organizations should put more efforts in improving the integration process of the two organizational culture and the concerns of employee, so as to overcome employee's resistance. This can be done through performance management, communicating and clarifying with staff those areas of the merger process where they are in the dark and supporting staff through life long training that seems beneficial to the current and future needs of the employees. Attention should also be paid to staff who were disengaged during the merger process, by promptly settling their severance package and empathizing with them.

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